C 2710-Z

Entire contents copyright 1990 by Crain Communications Inc. All rights reserved

March 19, 1990

#0405266926 5#01P100626 99
STATISTICAL REFERENCE INDEX
4520 EAST-WEST HWY SU 800
BETHESDA MD 20814
#880E*********C-DIGIT 20814 ONZ

Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$8 An Issue / $127 A Year

AT DEADLINE

NYC divestiture action likely

The board of the $17.7 billion New York City Employees' Retirement System was expected to vote March 16 to divest the last of its holdings in companies that do business in South Africa.

Since 1984, the fund has divested $262 million. It still has about $600 million of stock in foreign and U.S. companies, their subsidiaries or affiliates doing business or operating in South Africa.

Salomon buys Shearson unit

Salomon Brothers reached an agreement this week to purchase Lehman Management Corp., a subsidiary of Shearson Lehman Hutton Inc., New York, for $28 million. The transaction must be approved by Lehman Management's shareholders.

PBGC's health improving

The PBGC's deficit shrank to $1 billion in the fiscal year ended Sept. 30, down from $1.5 billion the year before. Assets increased 26% to $3.2 billion, while total liabilities edged up 5% to $4.2 billion. An investment return of 19.6%, or $440 million, accounted for a large part of the improvement.

The results exclude the potential absorption of three LTV pension plans, which are underfunded by about $2 billion.

GTE hires Acorn for options

The $10 billion GTE Corp. pension fund has switched options overwriting managers, moving to Acorn Asset Management from Webster Capital Management.

The change occurred because Webster's overwriting personnel went to Acorn and Webster did not have the capability to continue the service. Webster officials said the firm intends to add personnel to maintain and enhance its options overwriting capability.

State Street alum returns

A. Edward Allinson, president and chief executive officer of Mitchell Hutchins Asset Management, has left the firm to rejoin State Street Bank & Trust Co. after a 13-year absence.

In his new position, he will be executive vice president responsible for the mutual fund servicing area and chairman and CEO of Boston Financial Data Service, a joint venture between State Street and DST Inc.

His departure follows a restructuring of the firm in December.

Insurers' status safe

Insurance companies with sizable junk bond holdings would remain solvent even in a scenario of widespread defaults of portfolio companies, a review by Standard & Poor's shows.

If subjected to default rates of 10% on high-yield issues, assuming

Photo by Barry Kaufman

Nell Minow of Institutional Shareholder Services Inc. believes accountability is mandatory for both investors and management.

Investor muscle

Pressure on boards to intensify

By Marcia Parker

Institutional investors will press boards of directors harder than ever to shoulder more of the burden of making companies more accountable, of communicating with shareholders and of mediating conflicts between management and stockholders.

This was the consensus of a *Pensions & Investments* roundtable discussion of whether institutional investors have gone too far in their campaign for improved corporate governance.

The panelists were Catherine Dixon, a staff member with the Securities and Exchange Commission's Division of Corporate Finance, which is studying an overhaul of the proxy system; Nell Minow of Institutional Shareholder Services Inc., a Washington consulting firm; Augustus Oliver, a general partner of Coniston Partners; Edward Regan, sole trustee of the New York State & Local Retirement Systems; and John Wilcox, managing director, Georgeson & Co., New York.

The panelists agreed there is a out of the takeover era partly because corporate executives link institutional shareholder activism with change of control and anti-management attitudes.

"What's underlying all of this is a fundamental distrust. The large institutional stockholders are saying managements are not to be trusted, and the managements are saying the shareholders are not to

An edited transcript of the roundtable — page 17

be trusted, because in each case, they don't have the best interests of the business enterprise at heart," Mr. Oliver said. "I think both sides are wrong. This fundamental distrust is imposing a tremendous cost on all of us in the whole system."

The participants agreed institutions have accumulated a great deal of influence through the years, and that they still are learning to wield that power effectively.

But they said activist institutional investors have not used their influence effectively in spite

NYNEX does 1st shelf issue

ESOP-depleted treasury repaid

By Marlene Givant Star

NEW YORK — NYNEX Corp. plans to issue $500 million in notes to replenish treasury stock used to create an ESOP at a time when its share price is down and few corporations are tapping the debt markets.

Institutional investors are gobbling up debt related to employee stock ownership plans because there has been little other corporate debt so far this year. ESOP notes usually are high quality and issued by companies that otherwise might not come to market.

NYNEX is filing a shelf registration for the issue. "This is the first NYNEX shelf ever and probably will be the only one ever," said Jim Jordan, investment director-financial planning.

Proceeds of the telecommunications company's $500 million issue will be used strictly to finance the repurchase of common stock in the open market, Mr. Jordan said.

The shares will replenish treasury balances that were depleted upon formation of a leveraged ESOP earlier this year. There is a fair degree of regulatory scrutiny regarding leverage at the parent company level although a number of NYNEX's subsidiaries may come to market this year.

NYNEX's principal assets are New York Telephone Co., which represents about 65% of total assets, and New England Telephone and Telegraph Co. The two subsidiaries accounted for 83% of 1989 revenue. NYNEX's publishing, mobile communications, financial and real estate services subsidiaries provided 9% of revenue. The remaining 8% came from NYNEX's other businesses.

NYNEX was dealt a major blow March 8 when the New York Public Service Commission rejected a proposed settlement that would have given the company a $440 million rate increase in 1991. NYNEX shares fell $2.75 to $80.50 on the news.

NYNEX last week returned with a $965 million rate hike request and will have to go through a long hearing in which its cost structure and expenses will be scrutinized. Rejection of the earlier request also keeps alive an investigation into possible overcharges by NYNEX's purchasing arm.

A decision in the $965 million request probably won't be made until mid-December. Until a new rate structure is determined, NYNEX will have to grapple with uncertainty about its cash flow stream.

NYNEX, taking advantage of the drop in its share price, was in the market the first week in March repurchasing shares using internally generated funds. Even with the drop, the stock was still pricier than the 79¾ level at which it closed when the 5.625 million-share ESOP was formed on Feb. 15.

NYNEX wanted to come to market with the ESOP notes issue soon after the Feb. 15 board resolution to adopt a leveraged ESOP.

See **NYNEX notes** *on page 36*

Virginia quandary

Fund holds stock but state gets profits

By Hillary Durgin

RICHMOND, Va. — For the past seven years, the state of Virginia has skimmed nearly $90 million from a railroad stock owned by the Virginia Supplemental Retirement System, but controlled by the state.

The proposed merger of Richmond, Fredericksburg & Potomac Railroad Co. into CSX Corp. has focused attention on a series of stock transfers involving the pension fund's 20% stake in RF&P. Both railroad companies are based in Richmond.

Whether the state or the retirement system pockets the proceeds from the proposed merger — if the pension system the book value of the stock, with any amount above that going to the state. On April 18, the governor and General Assembly will meet to hammer out details of the legislation and the disbursal could change.

In a deal valued at $385 million, CSX is offering $34.50 a share in cash or CSX stock for the 64% of RF&P it does not control.

Virginia Gov. L. Douglas Wilder and some shareholders and analysts believe real estate owned by RF&P may be undervalued, making the tender price too low.

But others, including Charles B. Walker, who stepped down as chairman of the Virginia retirement system after a confrontation

NEWS DIGEST

ServiceMaster L.P. will try for the third time to get congressional approval for its profit-sharing plan to invest in employer securities. Page 39.

SPECIAL REPORT: CORPORATE GOVERNANCE

***P&I* invited 5 panelists** to take part in a lively roundtable discussion of the changes in corporate governance and the relationship between institutional shareholders and corporate boards of directors. Page 17.

FINANCING

NYNEX Corp. plans a $500 million note issue, the proceeds from which will be used to replenish treasury stock used to set up the company's leveraged ESOP. Page 1.

Moody's Investors Service expects a modest 11% increase in worldwide structured finance issues this year, with major activity in continental Europe. Page 32.

INTERNATIONAL

Alliance Capital Management moved quickly to invest in Eastern Europe, placing $500,000 in three Hungarian stocks for one of its mutual funds. Page 6.

The British Rail pension fund is reaping significant gains as it sells artworks from its more than 2,300-piece collection. Page 26.

West Germany's liberalized investment rules are providing a boon to both foreign and domestic investors as well as service providers. Page 39.

REAL ESTATE

TIAA-CREF is suing two New York City agencies after they granted landmark status to a restaurant — and its fixtures — in the Seagram Building, which is owned by the pension fund. Page 4.

Property performance lagged the returns from U.S. equities, bonds and Treasury bills during the fourth quarter of 1989. Page 8.

Savings and loan bankruptcies and falling junk bond prices mean good chances for property buys. Page 10.

Real estate return measures might just be right, contrary to what the conventional wisdom holds. In Portfolio Management, Page 30.

Lehndorff & Babson Real Estate Counsel invested in two office buildings for the CORE Group Trust because of a scarcity of suitable retail properties. Page 32.

DEPARTMENTS

Classified	36	Opinion	12
Commentary	14	Pension Surplus Index	8
Frontlines	8	P&I Age indexes	10
Money movers	33	Portfolio management	30

Vol. 18, No. 6 — Pensions & Investments (ISSN 0273-5466) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investments, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

Direct deposit dilemma

Plans, banks in battle over benefit payment liability

By Fred Williams

A cold war has developed between some pension plans and the banking community over which side is responsible for unauthorized electronic benefit payments after the beneficiary has died.

As direct-deposit benefit payments gain in popularity, pension funds are starting to require banks to sign agreements making the receiving bank responsible for any payments made after a beneficiary dies. In at least one case, a bank's refusal to sign the liability agreement resulted in a loss of business.

National Westminster Bank, New York, has lost "hundreds of customers" because of its refusal to sign the liability agreement, said Patricia A. Cohen, executive director of Florida Payment Systems Inc., Orlando, the Florida automated clearinghouse.

Bob Braun, an attorney at Nat West, said when some plan sponsors began requiring the bank to sign liability agreements before receiving electronic pension payments, "my bank picked up on it and revised the forms to say the amount (of liability) would be limited to the amount on deposit in the account when the claim was made."

"A major (pension plan) found out we were making the changes and said they would tell all their participants they wouldn't make the payment if our language was there. Our management decided the risk is unlimited and not a risk we were willing to take."

In general, bank officials say they should not be held responsible for the payments because they have no way of knowing if their customers are alive. Plan executives claim banks are in the best position to learn of the death of a retiree, and say the agreements are part of the sponsors' fiduciary responsibility to protect plan assets. They also say they first attempt to collect overpayments

See **Direct deposit** *on page 34*

Posthorn cuts 21 employees

K. Van Horn

By Margaret Price

LONDON — Posthorn Global Asset Management Ltd., which manages approximately $700 million in U.S. tax-exempt assets, has dropped its active thematic international equity approach and terminated its chairman, Karl Van Horn, and 20 other employees.

The firm managed approximately $200 million for U.S. tax-exempt investors using the thematic approach. It will offer an active disciplined value-oriented equity approach to U.S. tax-exempt clients, and will continue managing equities for mutual funds.

The cutbacks, which include closing an office in Belgium, came amid sweeping cost reductions by Posthorn's parent, Shearson Lehman Hutton Inc., New York. Shearson is expected to trim 2,000 jobs worldwide to save $400 million annually. Shearson's business is being scrutinized following a decision by its parent, American Express Co., to buy Shearson's outstanding publicly held shares.

U.S. pension fund clients using the thematic equities approach include American Telephone & Telegraph Co., Pacific Gas &

See **Posthorn** *on page 38*

USX spinoff backed

By Marlene Givant Star and Leonard J. Hollie

A large number of institutional investors believe spinning off USX Corp.'s steel business is a good way to increase the market value of the oil and steel conglomerate, but many are frustrated their decision on Carl Icahn's proposal will be non-binding on management.

While institutions always have had the power to vote their proxies on strategic decisions management is required to put on the ballot — such as a change of control or sale of assets — the USX case raises the question of whether a prominent shareholder should have the right to put major strategic decisions on management's agenda.

Mr. Icahn, USX's largest shareholder owning 13.26% of the company, has proposed at least 80% of USX's steel business be spun off. Shareholders will vote on that proposal at the May 7 annual meeting.

"As a shareholder, we want to maximize the returns for our beneficiaries, and do whatever it takes," said Jose Arau, principal investment officer for the California Public Employees' Retirement System, Sacramento, which owns 1.7 million shares of USX. He added he doesn't think shareholders would gain inordinate power to influence the business strategies of companies if Mr. Icahn's proposal passes.

Management grudgingly agreed to allow the vote. Although the result will be non-binding, institutions believe overwhelming support for the proposal would be tantamount to a mandate for change.

Making sweeping business strategy decisions of this nature is an area of corporate governance into which shareholders rarely have ventured. Not surprisingly, many institutional investors did not want to speak on the record about how they were likely to vote.

Peg O'Hara, director of the corporate governance service of the Investor Responsibility Research Center, Washington, said spinning off one's core business "is certainly rare when proposed by a shareholder and when proposed by one as big as Mr. Icahn, but it's not unheard of."

"This is unusual because (USX, formerly) U.S. Steel, is one of the biggest, oldest and best-known companies in America. The Icahn proposal gets more publicity (than most) but it is not an uncommon thing, particularly in a company that is having trouble, to do" a spinoff, Ms. O'Hara said.

Last year, for example, the United Mine Workers of America sponsored a shareholder resolution at Pittston Co., Greenwich, Conn., asking that a committee of the board be created to study divestiture of several of the company's four lines of businesses. Shareholders rejected the pro-

See **USX spinoff** *on page 35*

D. Phillips

Phillips quits at Ameritech

Donald W. Phillips, chief investment officer with the $10.5 billion Ameritech pension fund, will leave his post at the end of the month.

Mr. Phillips is joining Equity Financial and Management Co., Chicago, as executive vice president. That company is headed by real estate turnaround specialist Sam Zell.

A spokesman for Chicago-based Ameritech said Mr. Phillips' successor has not yet been named.

Funds exploring stock short sales

$950 million put into strategy

By Trudy Ring

Tax-exempt investors have pumped about $950 million into strategies using short selling of stocks during the past year.

Most of the interest in this hot new investment approach for institutional investors centers on investment styles that buy some stocks and short others, resulting in a market-neutral position, while a smaller amount of assets has gone to pure short-selling strategies.

Among the players:

- The $2 billion Rockefeller Foundation, New York, has put $50 million into a neutral fund run by Rosenberg Institutional Equity Management, Orinda, Calif. The foundation made the move less than a year ago, said Jack Meyer, treasurer and chief investment officer.
- The $11 billion Bell Atlantic Corp. pension fund, Philadelphia, has a small amount of money in a multimanager fund in which a few players are short sellers, said Edward P. Rennie, executive director-trust investments. He declined to name the fund or say how much Bell Atlantic has invested there. He said he'd like to see the strategy mature before putting more money into it.
- The Unisys Corp. pension fund, Blue Bell, Pa., and the Virginia Supplemental Retirement System, Richmond, reportedly are using short selling, but neither has confirmed this.

Officials at other pension funds, including Owens-Illinois Inc., Toledo, Ohio; Allied-Signal Inc., Morristown, N.J.; and Blue Cross and Blue Shield Association, Chicago, are taking a look at short selling.

Several money managers began marketing short-selling strategies within the past year.

Rosenberg Institutional has $600 million, almost all tax exempt, in its market-neutral strategy, which it has marketed since February 1989, said Marlis Fritz, partner.

J.P. Morgan Investment Management Inc., New York, has drawn commitments of $150 million from pension funds and foundations for a strategy of buying undervalued and shorting overvalued stocks within market sectors.

Frank Russell Trust Co.'s Private Partnerships Fund, which uses short selling and other nontraditional approaches, has more than doubled in the past 12 months to nearly $100 million in assets, all from pension funds. A similar fund for other investors has drawn $20 million.

Martingale Asset Management, Boston, has attracted about $50 million since the first of the year from two clients, one pension fund and one taxable investor, also for a strategy that buys undervalued and shorts overvalued stocks. The pension fund represents the bulk of the money.

Mellon Equity Associates, Pittsburgh, has drawn one $50 million pension fund account for its strategy that buys and shorts stocks based on differences in valuation. It began marketing the strategy Aug. 1.

Stovall/21st Advisers Inc., New York, also a firm that combines stock purchases and short sales, is gearing up for a major marketing push. It runs $50 million, including one $5 million account for a pension fund.

Overall, tax-exempt funds appear to have substantial interest in short selling, while impediments remain.

Ronald C. Boller, corporate vice president and director-benefit finance at Owens-Illinois, has been looking at short selling for about a year. "I'm still just as eager to do it as I was a year ago," he said. "We absolutely want to, but it's a legal thicket."

See **Short selling** *on page 35*

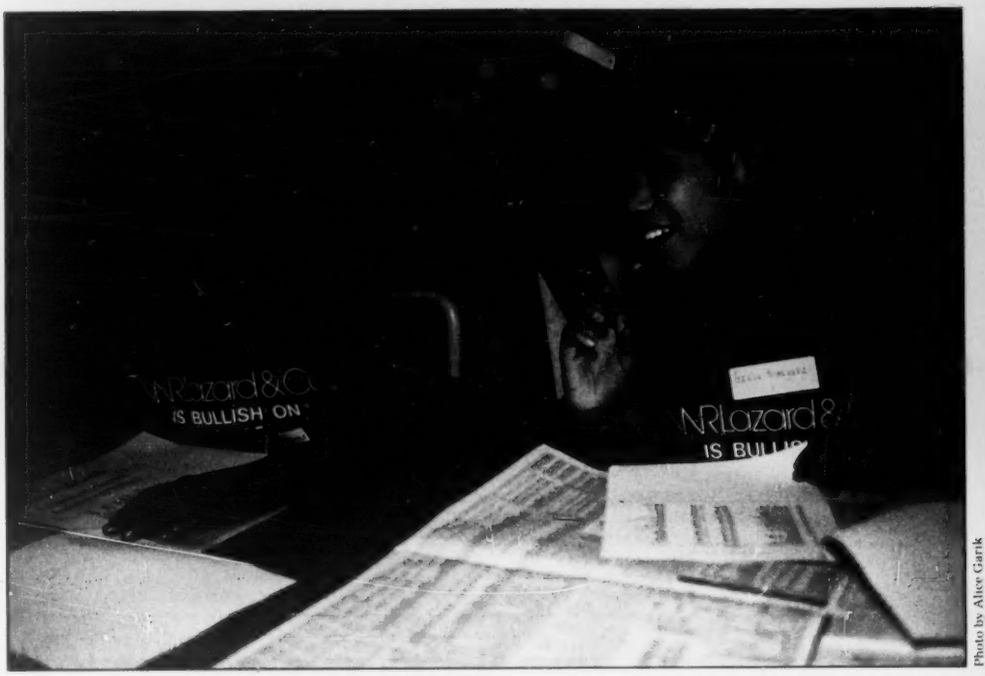


Photo by Alice Garik

New York public school students Tremayne Saunders, left, and Guiller Rodriguez scrutinize returns of their chosen stocks during a Wall Street field trip at WR Lazard & Co.

Kids get taste of Wall St.

WR Lazard tries to spark minds of students

By Terry Williams

NEW YORK — Thirteen-year-old Tremayne Saunders was ecstatic as he pored over his $107,000 investment portfolio. His 200-odd shares of Capital Cities/ABC Inc. had a market value of $517.75 per share, the highest of any of his eighth-grade classmates.

He was not shy about pointing this out. Shouting over the din created by 60 teen-agers in a conference room at WR Lazard & Co., he said, "Mine is worth $517."

But Tremayne's joy was short-lived; he soon learned he was looking at figures from Feb. 15, and this was Feb. 23.

The light in the youngster's eyes dimmed when told he had, in fact, lost money. Cap Cities had declined to $498 per share as of Feb. 22.

"I thought the price would increase," said Tremayne, his enthusiasm rushing out of him like air released from a pair of Reebok pump basketball shoes.

As a matter of fact, he would have been better off buying Reebok International Ltd. like his classmate Guiller Rodriguez, 14. Guiller, the recipient of Tremayne's taunts about anemic market price, saw his stock rise from $16.62 Feb. 15, the date of purchase, to $17.12 Feb. 22.

When advised of this, Guiller pumped up and said: "I like wearing Reeboks. They're comfortable and they're popular too.

"I was planning on buying the Pumps."

If the gain Guiller realized on his stock were in real dollars, he could have bought a pair of the $170 sneaker for every day of the week.

As it turned out, the portfolios and the $100,000 were part of an investment seminar by WR Lazard, a minority-owned investment management firm. Called "A Day on Wall Street," the firm played host to 60 inner-city children from Public School 123 in Queens and Intermediate School 195 in Manhattan.

The day's activities included a discussion of the children's portfolios, speeches about investment careers and a visit to the New

See **Students** *on page 38*

TAA returns in 1989

Standard & Poor's 500 Stock Index	31.6%
QuantiLogic Asset	29.2
Matrix Capital (global)	25.9
Bankers Trust (actively managed components)	25.6
M.D. Sass Investors (aggressive)	24.9
Bankers Trust (indexed components)	24.8
Static mix of 60% stocks, 40% bonds	24.6
Mellon Capital	24.4
Matrix Capital (domestic)	23.5
J.P. Morgan Investment	23.1
R.M. Leary	22.8
Avatar Associates	22.5
Callan Associates (median manager)	21.9
Prudential Diversified	21.8
M.D. Sass (moderate)	21.7
PanAgora Asset (equity orientation)	21.3
DeMarche Associates (median manager)	19.8
Chancellor Capital (two-way)	19.4
Chancellor Capital (three-way)	18.2
M.D. Sass (conservative)	18.0
PanAgora Asset (balanced orientation)	17.5
First Quadrant	15.8
J.H. Ayres	14.3
TSA Capital	13.7
Wells Fargo Investment (collective fund)	11.7
Davis, Weaver & Mendel (three-way)	7.3
Schield Management	7.0

TAA managers holding firm

Most retain their allocations following rough year in 1989

By Trudy Ring

Tactical asset allocation managers are sticking to their guns, though many suffered in 1989 because they were poised for a downturn in the stock market that never materialized.

The managers, holding large cash positions, underperformed both the stock market and a static mix of 60% stocks and 40% bonds. But managers, clients and consultants said the strategy shouldn't be condemned just because of the 1989 results.

The reaction has not been a wholesale move back to equities, though some firms increased their equity allocations in late 1989 or early 1990. Most firms' models have a neutral view of the equity market; any bullish or bearish signals are moderate.

Those who were heavily in cash last year took that position largely because their models perceived the stock market as high-risk and driven by factors other than fundamentals, such as takeover plays.

Their more neutral posture now has been driven by factors like interest rates and market liquidity, but their models indicate no fundamental changes.

The past year turned out to be excellent for both the stock and bond markets. The Standard & Poor's 500 Stock Index returned 31.6%, while the Shearson Lehman Hutton Government/Corporate Bond Index returned 14.2%. A mix of 60% stocks and 40% bonds, using these indexes, would have returned 24.6% for the year.

The median tactical asset allocation manager in Callan Associates Inc.'s universe returned 21.9% for the year; the median allocator in DeMarche Associates Inc.'s universe returned 19.8%.

"Most have been positioned for a falling stock market, and it simply didn't happen," said William Koehler, director of research for DeMarche, Kansas City, Mo.

But tactical asset allocation is not designed to add a lot of value in a steadily rising stock market.

Joanne M. Hill, first vice president of PaineWebber Inc., New York, said the strategy tends to underperform strong equity markets; what may be unusual about 1989 is the extent of the underperformance. The year, however, did not refute tactical asset allocation, because the strategy is likely to beat a 60%-40% stock-bond mix a good deal of the time, she said.

"What is troublesome is that many people bought into asset allocation on the 1987 results," she said. That year, many allocators beat the stock market because they were underweighted in equities going into the Oct. 19 plunge. "People who looked at that as a typical year were bound to be disappointed."

See **TAA managers** *on page 37*

For foreign funds, Japan barely opens door

By Robert C. Pozen

Investment trusts are big business in Japan, with 57 trillion yen ($395 billion) managed in stock and bond funds. But this business is run by only 15 investment management firms, all affiliated with Japanese brokers and all hand picked by the Ministry of Finance.

In December, the ministry announced guidelines for application by foreign firms to manage Japanese investment trusts, their version of mutual funds, whose rules are separate from those involving management of Japanese pension funds. Newspaper reports indicated the ministry will allow four or five foreign firms to join the cartel to manage these trusts. The guidelines, however, impose several onerous criteria, leaving one to wonder: Is this opening more illusion than reality?

First, the management company must be a separate entity with minimum capital of 500 million yen ($3.5 million). This capital must be contributed almost entirely by the foreign firm; no joint ventures with Japanese companies are permitted except for a single 5% minority interest.

Second, the management company may not contract out any administrative functions to a third party. In most countries, accounting and custodial tasks for the fund are performed routinely by banks and other financial institutions.

Third, the guidelines suggest the management company needs to have about 30 professionals in Japan dedicated to running the fund business. This would preclude foreign firms from relying in a meaningful way on their existing research groups outside of Japan.

Finally, the foreign firm must project a surplus within five years, based on realistic estimates of expenses and fund sales. This is very difficult given the local office requirements and practical restraints on fund distribution — the major Japanese brokers already are affiliated with funds, and direct marketing of Japanese funds is unknown.

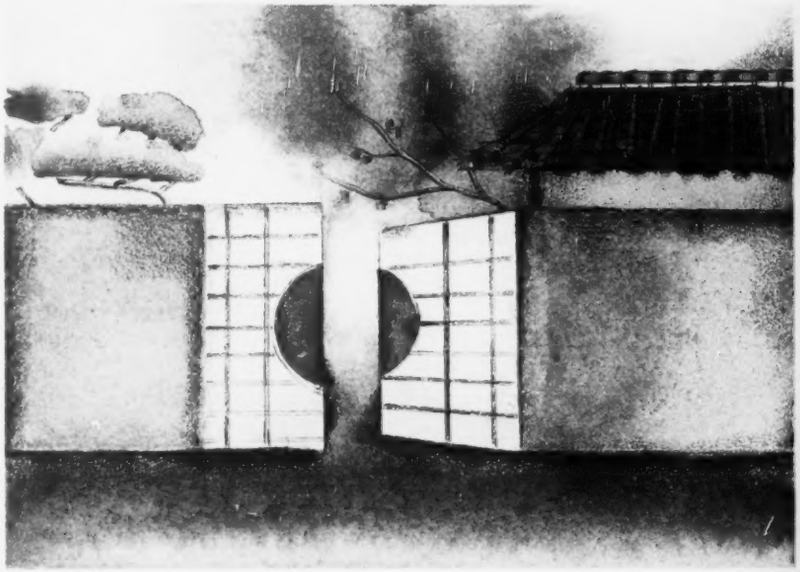
The new rules represent a significant improvement over the existing situation for U.S. fund managers. At present, foreign firms are legally relegated to offering Luxembourg-based funds denominated in currencies other than yen. Imagine trying to sell a dollar-denominated fund to the average Japanese investor who has watched the yen soar over the last decade!

These Luxembourg funds aren't allowed to invest more than 50% of their assets in Japanese securities. This has been a severe handicap, because the Japanese stock market has been one of the best performers in the world.

Still, entry barriers to the Japanese fund market remain much higher than the barriers faced by Japanese firms seeking to create U.S. mutual funds for U.S. investors. For example, any Japanese firm may become the sponsor of a U.S. mutual fund by registering with the Securities and Exchange Commission and capitalizing the fund with $100,000.

The SEC does not limit the investment management industry to a small number of licensees; it processes all applications on a relatively objective basis. The SEC has no minimum requirement for local employees; nor does it prohibit new funds from contracting out most administrative functions to third-party processors. Finally, while Japanese funds face some difficulties in breaking into the U.S. market, they have the benefit of a relatively broad array of distribution outlets — direct marketing, brokerage sales and joint ventures.

Though the ministry appears to be opening the door to foreign firms, the door in fact is still closed to most foreigners. Only a few will be willing and able to incur the high costs required to meet the criteria. ■



Judy Jarrett

Mr. Pozen, general counsel of FMR Corp., Boston, is a member of the U.S. Committee of Experts that is engaged in reciprocity discussions with the European Federation of Investment Funds and Companies. His article represents solely his personal views and not those of FMR or the committee.

End paternalism, involve employees more

By Herb Ruben

It comes as no surprise to those of us involved in corporate benefits administration that America is aging — rapidly. The first of the Baby Boomers are already in their 40s, and the pre-retiree group of ages 45 to 64 makes up 25% of the adult population.

With one's retirement period now likely to last upward of 20 years, Merrill Lynch commissioned a study to find out just what people expect from those years and how those expectations will be financed.

The survey focused on the attitudes and practices of two key groups: individuals approaching retirement age and company benefits managers.

Our study identified a number of alarming conflicts, many centering on the widening gap between what the pre-retirees expect from retirement and the reality of what they will be able to afford.

For example, 72% of the pre-retiree respondents expect no change in lifestyle after retirement. But one-fifth of them say they have done little or no planning for their financial needs, and relatively few are putting major portions of income in retirement plans.

While 76% agree that "it is up to me to save for retirement," about one-third believe the government should take responsibility for funding retirement. Nearly half believe their employer has responsibility to provide adequate benefits.

Which brings us to another set of conflicts: those between employees and benefits managers. The two groups disagree sharply about the employee's role in the direction of investment in a retirement account. Ninety percent of pre-retirees believe it is important they be involved vs. only 46% of benefits managers.

The employees, by the way, appear to be more in the national mainstream, where we see the government recognizing participation and control through pension regulations issued by the Department of Labor such as 401(k) policies, providing for more employee involvement.

In analyzing the survey results, we have concluded that individuals should assume greater control over their financial future. Naturally, this would include exercising more choice in the company retirement plan. Importantly, individuals must begin much earlier to make the investment decisions that will enable them to enjoy the retirement lifestyle they are expecting.

Employees, therefore, must be better informed as to the amount of income needed to cover increased longevity and long-term care. They also must be more realistic about the provisions of Social Security and employer benefits as well as the effects of inflation and housing and health-care costs.

Individuals cannot shoulder the full burden; neither can the employer, nor the government. There must be a partnership of all three in successful retirement planning.

The corporation — the employer — no matter how large or small, must begin to educate employees about their responsibilities in coping with the realities of retirement. Rather than continuing paternalistic attitudes that foster a false sense of well-being, companies must work with financial institutions to help employees develop and direct realistic financial plans.

Companies should encourage employee participation and choice in retirement benefit plans. It raises the level of employees' involvement in their future. It also enhances employee identification with corporate goals.

The government, for its part, must begin to listen to the very real concerns of responsible citizens, corporations and the financial institutions that serve them. The government must encourage savings and investment and start to reverse the trend that has put our country's personal savings rate at the lowest level in the industrial world.

Government also must address the crisis of mounting costs for long-term care that is an underlying worry for those approaching retirement. ■

Mr. Ruben is senior vice president in Merrill Lynch Consumer Markets' group financial services division, Princeton, N.J.

LETTERS TO THE EDITOR

Another shorting strategy

■ I read with great interest the Portfolio Management article in the Feb. 5 issue by Alan J. Strassman and William E. Jacques on their strategy of using short positions to hedge long positions in equities.

At my firm, we have been employing a methodology quite similar to this for the past four years, with good results. The actual implementation of the strategy is slightly different from theirs at Martingale. Our work would differ with the concept that 90% of a stock's movement is caused by the stock market. Surely, Messrs. Strassman and Jacques would not contend a gold stock, for example, is influenced primarily by the market in general rather than by movements in the gold price.

Our experience has found it is appropriate to analyze the anatomy of price moves individually, industry by industry and stock by stock, dollar balancing our longs and shorts. Our representative account has done well since inception in 1986, but as Mr. Strassman and Mr. Jacques contend, the results seemed most impressive during the market breaks of 1987 and 1989. The account earned 0.8% in October 1987 vs. a decline of 21.8% in the Standard & Poor's 500 stock index. In October 1989, the same account showed a 2.2% gain vs. a 2.5% decline for the S&P 500.

Our experience over the four years has convinced us that this "consistent return" strategy can improve risk/return relationships in balanced portfolios.

Further experience with this discipline can be expected to win it more disciples.

Robert H. Stovall
Twenty-First Securities Corp.
New York

Scorecard amount in error

■ We were flattered to be included in your Feb. 5 Scorecard report of the most new balanced business. Although we enjoyed a very successful year, the amount reported by us of $168 million was considerably overstated. The appropriate amount should have been $35.4 million.

We certainly regret this oversight.

Jeffrey P. Moody
Vice president
Midlantic National Bank
Edison, N.J.

Ms. Hudson-Wilson is vice president and director of market research at Aldrich, Eastman & Waltch Inc., Boston, a real estate investment management firm.

Doubt surrounds realty return data

By Susan Hudson-Wilson

Are measures of real estate returns wrong?

I'm not so sure. The conventional wisdom on the standard measures of real estate risk and return is pretty clear: the returns are overstated and volatility is understated. The returns and the risk together do not accurately capture the "true" behavior of real estate markets.

It's a pretty important problem — if it's true. It really throws off the most rigorous asset allocation exercises. The adjustments made to the data to compensate for the "error" make a mockery of all that sophisticated, "hands off" technology.

Recently, in the course of working on a book of readings in real estate for the Association of Investment Management and Research, I have scoured the literature. Here and there, in dribs and drabs, questions have been raised about the comparability of real estate return data and data on the performance of other assets, notably stocks and bonds. Collected together, these bits and pieces generate significant questions about the veracity of the conventional wisdom. I do not know what the answers are, but I will share the questions with you.

The easiest criticism of real estate returns is that they suffer from the dreaded "appraisal bias." This bias is alleged to dampen volatility by truncating the range of property values and, so, property returns. The critics claim that appraisals systematically overstate property values.

A very good study — done by Rebel Cole, David Guilkey and Mike Miles in 1986 — concludes "it just ain't so." These researchers do not find a systematic differential between appraised values and net sales prices. The research does find that individual property's true and appraised values may differ considerably, but at the portfolio level these differences "wash out." The research does not, however, analyze the more subtle question of lags. Perhaps appraisals are merely slow to respond to market cycles, but they capture the extremes. On average, there would be no systematic bias. I'm just not sure.

Next, let's review five ideas that, taken in combination with the evidence on appraisals, may suggest the real estate performance data just could be right.

• Leverage. Most of the "problem" with the real estate data is it just will not confirm our expectations of how it ought to look — especially with respect to its presumed brethren, stocks. We compare unleveraged real estate returns with the stock market returns of leveraged firms. Unleveraged real estate is a viable investment option. Perhaps we should accept it for what it is.

Summary: Quarterly returns

	Average return	Standard deviation	Avg. return/ standard deviation
Property	2.83	1.39	2.03
S&P 500	4.22	7.90	0.53
Bonds	2.61	4.70	0.56
T-bills	2.21	0.65	3.41

All statistics, first quarter 1978 to fourth quarter 1989

• Cash Flow Stability. Again the comparison is between stock and real estate equity. When fairly constant price-earnings multiples, or their cap rate inverses, are used to value the asset, is it any surprise corporate earnings are more volatile than net operating incomes from properties? Net operating income comes from leases with relatively long terms; earnings come from daily business transactions in the marketplace.

• Liquidity. It's a commonly accepted thesis that investors prefer liquidity and so must be paid to give it up. They can get paid in two ways: through higher absolute returns or through lower risk. In either case, they achieve a differential in risk-adjusted returns as their compensation. The average private market real estate transaction is, of course, significantly less liquid than the average stock market transaction. Are the data wrong or are they reflective of substantive differences in the investment vehicles?

• Private Market Transactions. While we are on the subject, let's think about the question of investment structure. Private market transactions are crafted carefully by the providers of capital. The users of private market capital are structure takers, not makers. Providers ought to get paid for the exercise of market power. Perhaps they do.

Is it possible real estate returns are a proxy for the otherwise unobservable returns of the very large private market that includes venture capital, oil and gas, timber and other non-traditional assets? What is the total size of the private market? Are we already implicitly allocating large portions of our portfolio to it? If we are not, should we? Is this the message of the asset allocation models?

• Transaction and Information Costs. This final observation is exactly analogous to the argu-

How to lower your advertising investment and increase its return.

1. Invest in the best read publication in the industry. It makes sense. After all, when you invest in advertising you invest in the probability of exposure. When you invest in *Pensions & Investments*, you maximize your probability.

2. Use added frequency. Running with consistency in *P&I* reinforces your advertising message while earning discounts for you. For example, 26 time full page users invest 28% less per advertisement. And, there are frequency discounts for ad units of all sizes.

3. Take advantage of color and size. When you use four-color and a full-size page, ad recall soars to more than 82% greater than all other ads in the issue. Adding four-color to your advertisement increases recall of your advertisement in *P&I* by more than 50%. Increasing your advertising unit size to full page increases recall of your advertisement by more than 50%.

4. Keep position buys to a minimum. Why pay an extra 10% for a special position when you're assured of high readership on every page of *P&I?* Research demonstrates consistently high readership from page two all the way through the last page of every issue. Covers, of course, enjoy even higher readership.

5. Take advantage of tombstone and announcement rates. A great way to announce new deals, appointments, promotions and address changes! *P&I* offers a separate ratecard with discounts for tombstone and announcements averaging 17% against display rates.

6. Take advantage of AdSist. An increased advertising commitment to *P&I* for next year means you get more space for your money. *P&I's* Additional Space Incentive System was designed to help you stretch your advertising budget and to take advantage of selling opportunities in *P&I.*

7. Take advantage of GAC. Guaranteed Advertising Contracts offer added space credits to qualifying advertisers making up-front commitments to *P&I.* The space credit equals 10% against total display rates.

8. Take advantage of CPU. Consecutive page units are a great way to tell your whole story. Place three or more consecutive units in a single issue of *P&I* and you earn a Consecutive Page Unit discount of 10%. Plus each page counts toward frequency.

9. Take advantage of MPU. The Multiple Page Unit discount of 8% is available to advertisers using four or more units in a single issue of *P&I.*

10. Coordinate your various divisions for advertising volume. When other divisions of your company advertise in *P&I,* everyone benefits. Frequency discounts, GPU and MPU discounts are all easier for everyone to achieve.

For more information contact your P&I sales representative today!

Pensions&Investments

The newspaper of corporate and institutional investing

New York Chicago Boston Los Angeles

Divestiture lost steam in '89

WASHINGTON — Only three colleges and universities adopted or made substantive revisions in South Africa-related divestiture policies in 1989, according to a study by the Investor Responsibility Research Center.

This is down from a peak of 32 educational institutions taking such action in 1985. The number dropped to 29 in 1986, 14 in 1987, and eight in 1988.

An exception to the general trend in 1989 was Dartmouth College, Hanover, N.H., which in November moved to total divestiture from partial divestiture of securities in companies operating in South Africa.

Several factors have cut down on student activism and, therefore, divestiture activity since mid-1986, the IRRC reported. One was South Africa's imposition of a state of emergency that severely hampered news organizations' ability to report on political developments there.

As a result, the report noted, "Network news programs were no longer inundated with the graphic pictures of white policemen beating black protestors with rubber whips and truncheons that had served so well to focus the U.S. public's attention on the policy of apartheid."

Two other factors were the enactment, in October 1986, of the U.S. Comprehensive Anti-Apartheid Act, which included a ban on new U.S. investment in South Africa, and the continuing number of U.S. companies withdrawing from South Africa.

"With so many companies pulling out of South Africa, and new investment against the law, student activists found it hard to convince their fellow students of the need to continue exerting pressure on their boards of trustees to adopt divestment measures," the report said.

Finally, increased awareness of racism on their own campuses has diverted much of students' and administrators' attention from South Africa, the IRRC noted.

If student pressure remains on the wane, few schools will move toward total divestiture, and some might try to reverse the steps they have taken, the report predicted. Nonetheless, South Africa-related divestiture will remain an issue on many campuses that have yet to take any steps toward it or that have policies calling for partial divestiture.

Of the 93 institutions that responded to the IRRC's survey, 36 have total divestiture policies, 40 have partial divestiture and one has a policy that prohibits only new investments in companies with South Africa operations.

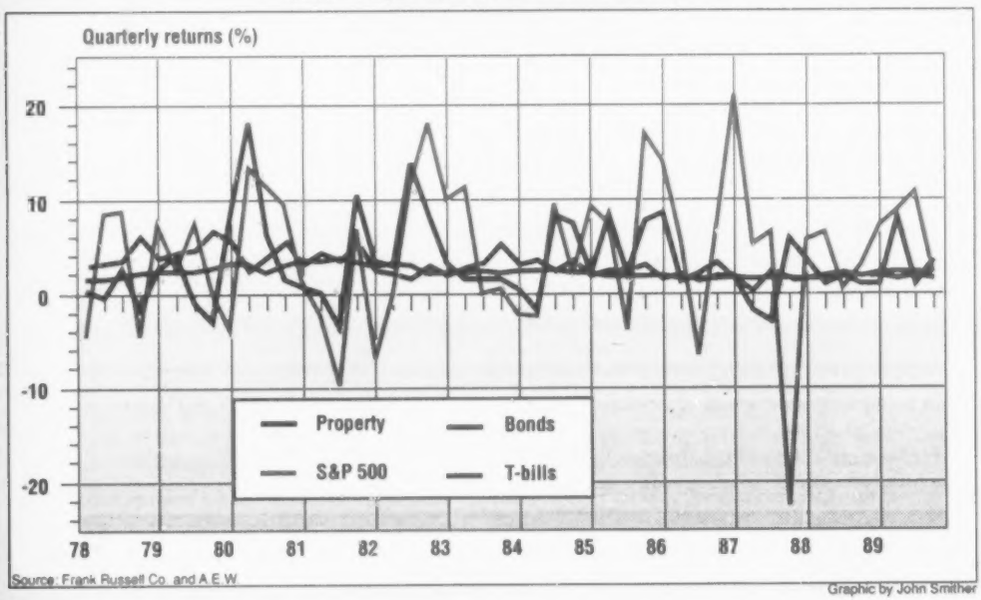
Several institutions have begun applying their divestiture policies to foreign securities, and one extends its policy to companies with non-equity ties, such as licensing or distribution arrangements, in South Africa.

Some schools do not apply their divestiture policies to bondholdings or commingled funds. About 13% of the $15 billion held by respondent schools was exempt from the policies.

The full report, "Divestment on Campus: Issues and Implementation," is available for $45, prepaid, from IRRC, 1755 Massachusetts Ave., N.W., Suite 600, Washington, D.C. 20036. ■

Return performance

(Unleveraged real estate vs. other assets)



Source: Frank Russell Co. and A.E.W.

Graphic by John Smither

Doubt

Continued from page 30

ment for liquidity compensation. Transaction costs in real estate may be as much as ten times greater than those in the stock market for some transactions. It is absolutely certain that investors will need to be compensated for this obvious cost. Information too is far more expensive in the relatively less efficient real estate market than its publicly traded counterparts. Over time, as the field of real estate research matures and as interest in the asset grows, we can expect information costs to fall. But for now, investors have a way of getting paid for their troubles.

So, are the data wrong? Or is the conventional wisdom wrong and perhaps a bit simplistic? I'm not sure anymore. The recently available time series on real estate returns may have provided the investment community with a glimpse, through a small crack, at the large and attractive world of the private capital market. ■

$75,000,000
for
A Mobile Home Park Joint Venture
Funded by the

PMRA MOBILE HOME PARK FUND
(A Group Trust)

for Placement in Partnership with
Clayton Willians & Sherwood, Inc.

THE UNDERSIGNED ACTS AS FIDUCIARY FOR THE TRUST PARTICIPANTS IN THE UNDERWRITING AND ASSET MANAGEMENT OF THE JOINT VENTURE INVESTMENT.

PMRealty Advisors

November, 1989

PROXIES:
ARE YOU PREPARED?
PROTECTED?

Proxy season is coming again. Prepared for the paperwork? Have you evaluated the impact of recent Department of Labor actions? Can you meet strict enforcement requirements? Aware of the new penalties for ERISA violations? What precautions have you taken to avoid perceived conflicts of interest and questionable voting policies or procedures?

There is still time to talk to Faulk and Co., Incorporated, the nation's leading proxy specialists. Our proxy management and voting service is complete, from the mechanics of the process to the formulation of long term proxy voting policies and execution.

For specific information on how we can serve you, talk to Anne Faulk personally at 404-850-3770. Call while you still have the time. And the option.

FAULK & CO.
INCORPORATED
3200 Professional Parkway
Suite 250
Atlanta, Georgia 30339
(404) 850-3770

LOR a le plaisir de vous annoncer qu'il est

Adminstrateur et Gerant d' Investissement

pour

Elf Aquitaine Incorporated

et son

programme de couverture d'equite basee sur options

523 W. Sixth Street, Suite 220
Los Angeles, California 90014

Leland O'Brien Rubinstein Associates INCORPORATED

TAA managers

Continued from page 3

Officials of several pension funds, including those of K mart Corp., San Diego Gas & Electric Co. and the city of Cincinnati, said they're keeping their faith in tactical asset allocation.

The $1.1 billion K mart defined benefit fund's TAA manager, Avatar Associates, New York, returned 22.5% for the year — its biggest degree of underperformance of the S&P 500 in the more than five years it has managed money for K mart, said John Steinbach, assistant treasurer and investment manager at the Troy, Mich.-based company. Avatar has outperformed the market significantly in bad years for stocks, having been up more than 20% in 1987 while the S&P 500 was up 5.2%, he said. It had the best return of any of K mart's managers that year, he said.

In good years for stocks, Avatar has captured a significant amount of the market's gain, he said.

"Our objectives are to participate in rising markets and to preserve capital in falling markets," said Bruce Poliquin, Avatar vice president. Avatar had a low equity weighting early in the year, built it up over the summer, cut back again in the fall and built it up later in the year, to 80% at year end.

Avatar cut that back to 65% early this year, then boosted it to the current 70%. This represents moderate bullishness, due largely to positive market liquidity factors, Mr. Poliquin said. The risk in stocks, however, is still too high for Avatar to be fully invested, he said.

Officials of the $940 million Cincinnati Retirement System saw their TAA manager, Renaissance Investment Management Inc., Cincinnati, stay out of the equity market much of the year. This was the first year Renaissance, which has managed money for the Cincinnati system since 1986, had less than double-digit returns, said Frank Dawson, the system's director of finance. Renaissance averaged a 5.4% return in 1989, having been 100% in cash from January until October.

Still, the Cincinnati fund will watch Renaissance's performance over a full market cycle, Mr. Dawson said. "We're not going to make any rash decisions based on a one-year performance," he said.

Renaissance runs $37.4 million for the system.

Renaissance moved to 50% stocks, 50% bonds in October and has remained there, said Mike Schroer, vice president and director of research. With the drop in short-term interest rates and increase in corporate earnings and dividends, Renaissance's model indicated stocks and cash were equally attractive, spurring the move, he said.

The $390 million San Diego Gas & Electric Co. pension fund also will give the strategy more time. "The strategy certainly requires more than a market cycle to prove itself," said Charlie McMonagle, manager of financial services. The fund has about 10% of its assets in a tactical asset allocation strategy managed by Wells Fargo Investment Advisors, San Francisco.

Mr. McMonagle said that during 1989, the account was about 80% cash, 20% equities; Wells has authority to use bonds as well.

Patricia Dunn, president at Wells Fargo, said: "1989 was a year when we bore some opportunity costs, which is not unusual for tactical asset allocation strategies to do." Such strategies tend to be positioned well in advance of a change in market direction, she said.

Wells Fargo manages $10.5 billion in TAA accounts. A $3.4 billion collective TAA fund, whose results are submitted for Pensions & Investments' PIPER+ survey returned 11.7% for the year. San Diego Gas & Electric is not in that particular collective fund, she said.

Ms. Dunn said the TAA accounts were underweighted in equities in 1989, implying a defensive view of the stock market; for longer periods, however, TAA accounts are likely to outperform their component asset classes. "We wouldn't do it if we didn't think there was a payoff," Ms. Dunn said.

Other TAA managers on the lower end of the return rankings also underweighted equities. "We were out of stocks between 60% and 70% of the time," said Marshall Schield, president of Schield Management Co., Denver, which returned 7%. The year was a good one for stocks in the S&P 500, but the firm's model responds to the broader equity market, and it wasn't a good year for non-S&P stocks, Mr. Schield said. The roughly 1,200 stocks that are included in the Value Line Index but not the S&P 500 were up only 2.5% for the year, he said.

Schield has remained bearish on stocks this year, with about 90% of assets in cash.

First Quadrant Corp., Pasadena, Calif., whose primary TAA strategy returned 15.8%, and TSA Capital Management, Los Angeles, which was up 13.7% with its primary TAA strategy, also had relatively large cash positions.

"Everybody has certainly been examining their models . . . but there are always forces at work you can't model," said Richard Boling, TSA managing director.

Toward the end of last year, First Quadrant moved back toward its benchmark equity position and has remained there; its bond exposure is about half in cash because of the flat yield curve, said Tim Meckel, associate. Its benchmark mix is roughly 60% stocks, 40% bonds.

TSA's model was about 10% overweighted in equities by December; in the new year, it's tilting toward bonds, Mr. Boling said.

Higher performance numbers came from firms that were near normal or overweighted in stocks. These included Bankers Trust Co. — Investment Management Group and M.D. Sass Investors Services, both of New York; Mellon Capital Management Corp. and Quanti-Logic Asset Management Co. Inc., both of San Francisco; and Matrix Capital Management, Greenwich, Conn. ■

Investor muscle

Continued from page 1

failed to make accountability of management a priority.

"Boards of directors, even though they have been elected by shareholders, have been overly insulated from shareholders and the communication process for too long," Mr. Wilcox said.

"The board of directors has to be more independent, more responsive and interested in the viewpoint of the shareholders."

Beyond demanding more from directors, shareholders will try more approaches to activism — from letter-writing campaigns targeted to boards of poor performing companies to adding more kinds of issues to the proxy. All the panelists said shareholders' agendas should be limited, but there was no agreement on where to draw the line.

Ms. Minow said "shareholders should be a lot more focused on the composition and structure of boards."

Mr. Regan said he doesn't like the idea of shareholder resolutions on issues such as confidential voting because they are not tackling the important topics with which stockholders should be concerned, such as how boards select a successor to the chief executive.

But Mr. Wilcox said he is concerned too much power is being accumulated by institutional investors.

"I am concerned about too much concentration of power anywhere, whether it's in management or institutional shareholders . . . I'm concerned that degree of power is dangerous, and how do we structurally avoid concentrations of power."

In his view, the balance of power has shifted from corporate managers who are accountable to boards of directors to institutional shareholders who aren't accountable to anyone and have only financial interests in mind.

"What we have is a group of very homogeneous investors with roughly all the same financial objectives, and that creates structural problems for any democratic system . . . ," he said.

Institutional investors aren't homogenous, Ms. Minow and Mr. Regan countered. They said institutional shareholders have myriad investment objectives and opinions; financial rewards are not the only thing they consider in buying and holding stock.

"I think the answer to the accumulation of power — whether it's in management or institutional shareholders or whether it's in politics — is accountability," Ms. Minow said.

But Mr. Oliver challenged the assertions of all three. "Everybody seems to say that they're worried about the concentrations of power. I say what's wrong with it?" he asked. "And accountability to whom? If the stockholders are the owners of a large public company, are taking control of the enterprise and they're the ones who are basically telling the management what to do, what is wrong with that? Why are they any less accountable? Why is that system any less effective than any of the very large companies in this country that are not publicly owned and whose direction is dictated by family (members) or a few trusts."

Corporations have been writing the rules, Mr. Regan said, "so where is the damage in bolstering accountability?" ■

Report offers ethical values for inclusion in dealmaking

Now that mergers, acquisitions and takeovers have slowed, the major players should make time to digest an unusual new report on the weightier issues associated with corporate restructuring.

Ethics and corporate takeovers can — and should — mix, says a report published by the Woodstock Theological Center at Georgetown University, Washington.

And the center has a prescription to help achieve that mix — a set of ethical values corporate executives, bankers and lawyers should strive to honor.

The center also suggests dealmakers clarify the ethical issues that might arise by making a list of all the parties affected by the transaction. To add teeth to the effort, the center devised a detailed checklist of questions dealmakers should ask themselves.

The report also said increased regulation isn't needed, but a few reforms are. Changes might be needed in the tax treatment of interest payments at the corporate level and capital gains at the personal level. And corporate voting rights rules should be adapted so only those investors who hold corporate stock for some minimum amount of time would be allowed to exercise those rights.

Global Institutional Investment Trends

Publishing: April 30th **Advertising Closing: April 18th**

Get your message noticed! Reserve your advertising space by calling your *P&I* sales representative or the sales office nearest you today.

Pensions&Investments

The newspaper of corporate and institutional investing

New York (212) 210-0227 *Boston (617) 248-6991* *Chicago (312) 649-5280* *Los Angeles (213) 651-3710*

ALL ADVISORS MUST BE BONDED FOR CLIENTS' ERISA PLANS.

ERISA Law Requires Bond Limits of 10% of Plan Assets to $500,000

Aggressive ERISA Enforcement in 1990 By The Department of Labor

ERISA Premiums in an A+ Insurance Company

$100,000 = $74 $300,000 – $180
$200,000 = $128 $500,000 = $230

Please send ERISA Bond information and applications:

Name _____ Tel. _____
Company _____
Address _____
City _____ State _____ Zip _____

Mail or Fax to: Theodore Liftman Insurance, Inc.
101 Federal Street, Boston, MA 02110-1800
617/439-9595 FAX 617/439-3099